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UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
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Rate Adjustment Due to Extraordinary or Exceptional Circumstances — Docket No. R2013-11

PRESIDING OFFICER'S INFORMATION REQUEST NO. 10

(Issued November 21, 2013)

To clarify the Postal Service request for rate adjustments due to extraordinary or exceptional circumstances, filed September 26, 2013 (Request), the Postal Service is requested to provide written responses to the following questions. Answers should be provided no later than November 27, 2013. These questions are directed to Stephen J. Nickerson (Nickerson Statement).

1. These questions pertain to Nickerson Statement Attachment Nos. 11 and 4. Attachment No. 11, Contribution by Class of Mail FY 2014 AR, (Jan 26, 2014 implementation) shows total revenues of $66,174 million and total costs of $72,498 million. The difference between total revenues and costs, the projected deficit, amounts to $6,324 million. In Attachment No. 4, that same $6,324 million deficit is the first entry in the column headed "2014 AR Forecast (Jan 26, 2014)," and the bottom row of that column shows an end of year Cash Balance of $2,984 million.

    a. In Attachment No. 11, the forecasted contribution from the two High Density Saturation products, Letters and Flats/Parcels, respectively, is $481 million and $1,197 million. If higher than forecast volumes were to materialize for these two products and their actual contribution turned out to be, respectively, $500 million and $1,200 million (*i.e.*, actual contribution higher than forecast by $22 million), would it be correct to expect that

(i) the total deficit as shown on Attachment Nos. 11 and 4 would be reduced by $22 million, from $6,324 to $6,302 million, and (ii) the end of year cash balance on Attachment No. 4 would increase by $22 million, from $2,984 million to $3,006 million, or would some of the items shown on the rows of Attachment No. 4 likely be affected by such a change in Attachment No. 11? If, under the assumed volume and contribution changes for these two High Density Saturation products, some amount other than $3,006 million would represent a better estimate to the cash balance on Attachment No. 4, please provide that amount and explain its derivation.

b. Attachment No. 11 projects a negative contribution from Standard Flats of $251 million, and a cost coverage of only 89.7 percent. If the coverage on Standard Flats were increased to 100 percent and the aggregate $251 million deficit on account of Standard Flats correspondingly eliminated, would you expect (i) the aggregate contribution from Standard Mail in Attachment No. 11 to increase by $251 million, and (ii) the total deficit in Attachment Nos. 11 and 4 to be reduced by $251 million, from $6,324 million to $6,073 million? If not, please provide your projection of the expected aggregate contribution from Standard Mail and the resulting total deficit on Attachment Nos. 11 and 4.

c. If the contribution from Standard Mail shown in Attachment No. 11 were to increase and the total deficit were to be reduced, would the change in the total deficit on Attachment No. 11 flow through to the end of year cash balance in Attachment No. 4 (under the column 2014 AR Forecast Jan 26, 2014) and increase the cash balance shown there by the same amount of the reduction in the total deficit? If not, please provide and explain your projection of the end of year cash balance that would result from a total deficit of $251 million on Attachment Nos. 11 and 4, or such other total deficit as projected in your response to question No. 1.b., above.

2. As the Nickerson Statement notes at pages 4 and 5, Postal Service borrowing now has reached its statutory limit and liquidity now reflects the Postal Service's cash balances, as shown in Table Nos. 3 and 4. At page 5, lines 5-8, Mr. Nickerson explains: This [liquidity] problem is not adequately addressed in a normal price change for market dominant products, where price increases are constrained by inflation**,** as costs are also generally rising with (or above) inflation. If the Postal Service changed prices annually in a manner that comes closer to achieving the maximum contribution available to it under the price cap, would the Postal Service's liquidity be less constrained by the inflation-based price cap? If not, please explain why the Postal Service's liquidity would not be less constrained.

3. At page 9, lines 17-19 of his statement, Mr. Nickerson states:

> During 2013, the Postal Service worked to maximize the number of lower-cost non-career employees under the recently enacted contracts with its four largest unions. In 2014, we will capture the full year effects of that maximization.

a. When did the "recently enacted contracts" referred to in this statement become effective?

b. Does "maximize the number of lower-cost non-career employees under the recently enacted contracts" mean that the Postal Service currently is adding a significant number of newly hired employees to its payroll? If not, please explain. If so, please indicate the number of newly hired employees through September 30, 2013.

c. Does the Postal Service currently need to hire new employees in order to process and deliver the current volume of mail?

d. Under these “recently enacted contracts,” can the Postal Service lay off any of its career labor force and replace them with non-career employees?

4. In two separate rate dockets (Docket Nos. R2009-3 and R2010-3), the Postal Service requested authority to conduct short-term “summer sales.” Included among the justifications for the proposed short-term price reductions were assertions by the Postal Service that it then had excess capacity.

a. Does the Postal Service still consider itself to have excess capacity? If not, has all previous excess capacity referred to in those prior dockets now been effectively eliminated? Please explain as necessary.

b. If the Postal Service no longer considers itself to have excess capacity, approximately when — *i.e.,* in what year and what quarter of that year — did excess capacity cease to exist as a serious operating consideration?

c. If the Postal Service now has excess capacity in its career labor force, please explain why, under such circumstances, the Postal Service would add any new employees, regardless of whether those new employees are classified as career or non-career.

d. Does the Postal Service now have sufficient flexibility with respect to its labor force to adjust to mail volume changes of the magnitude shown in Attachment 15, most especially the 4.1 billion decline in volume from the 2013 Forecast to the 2014 AR Forecast (Jan 26, 2014)? If not, please describe all rigidities, inflexibilities, or other obstacles that prevent prudent management from making appropriate cost-saving adjustments.

5. At page 4, lines 4-8 of Mr. Nickerson’s Statement, he states:

> [T]he Postal Service made numerous cost reductions in response to the revenue loss, which have allowed it to maintain a minimal level of liquidity (excepting defaults on retiree health benefits (RHB) prefunding requirements). However, even as cost reductions are implemented, this

level of liquidity is intolerably low and must, under prudent management, be increased.

a. A 2011 Postal Service Office of Inspector General (OIG) report estimated that the Postal Service could save hundreds of millions of dollars, perhaps even billions, annually by converting expensive residential door delivery to curbside delivery. *See* USPS OIG, Audit Report: Modes of Delivery, Report No. DR-AR-11-006 (July 7, 2011). Does the Postal Service currently have any plans that would convert existing residential and business door delivery to other less expensive modes?

b. Would the conversion of residential and business door delivery to curbside delivery or other less expensive modes be within the control of the Postal Service? If not, please explain why not. If so, please explain why the Postal Service has not taken the initiative to achieve such cost savings.

6. At page 12, lines 5-6 of his statement, Mr. Nickerson states:

> This [expected available liquidity of $4,161 billion] remains well below the level of cash that a financially sound private sector company would have, as demonstrated above.

a. If the Postal Service's underwater products continue to result in annual losses of hundreds of millions of dollars, and the expected available level of liquidity will be as low as Mr. Nickerson indicates, how long will it be before the Postal Service will need another exigent price increase?

b. Please explain whether the Postal Service expects that the proposed exigent price increases for First-Class Mail (as well as other products with high coverage), will hasten or retard any long-run decline in the volume of First-Class Mail (and those other highly profitable products).

7. In response to Presiding Officer's Information Request No. 5, question 2(b), the Postal Service states that "if the Postal Service were to achieve both sets of

proposed rate adjustments, CPI and exigent, we hope to be able to maintain sufficient liquidity through 2017 such that the gains from this case would represent the full and final amount of net contribution that the Postal Service expects to request for volume losses from the 2008 – 2012 period."

a. Please provide the underlying assumptions in forecasting revenue, costs and liquidity through FY 2017?

b. How does the $1.78 billion estimated from the exigent rate increase sufficient to maintain liquidity compare with the $19.7 billion total FY 2016 savings estimated in the USPS Five Year Business Plan (April 2013) needed to gain financial self-sufficiency.

Ruth Y. Goldway
Presiding Officer